

TIME TO INCREASE THE MINIMUM WAGE, NOT GIVE TAX BREAKS TO THE WEALTHY

The House is scheduled to vote on H.R. 3081, a bill that gives \$120 billion in tax breaks to the wealthiest taxpayers over ten years and incidentally increases the Federal minimum wage from \$5.15 per hour to \$6.15 over an extended period of three years. By contrast, Democrats have maintained that this debate should be first and foremost about giving a raise to America's lowest paid workers, and that it should be accompanied by tax relief for the small businesses that would be most affected.

If the Republican leadership had its way, this vote would never occur. It is only through the persistence of Congressional Democrats committed to fighting for what the vast majority of Americans believe is fair and necessary that the Republicans have been dragged kicking and screaming to the point where they will allow a vote. Having been forced to bring this popular and well-justified issue to a vote, the Republicans then used it as the next vehicle on which to load their bag of tax goodies.

A Fair Increase in the Minimum Wage

The federal minimum wage was last increased in September 1997 when the second step of legislation enacted in 1996 took effect. This increase, to the current level of \$5.15 per hour, was passed by Congress at the insistence of Democrats in the face of stiff opposition by the Republican leadership of both Houses.

The American public has consistently supported an increase in the minimum wage. A survey conducted by ABCNEWS between September 29 and October 3, 1999 found that 83% support an increase, with the support nearly as strong among Republican voters (67% in favor) as among Democrats.

Failure to act now would allow the purchasing power of the existing wage to continue to erode due to the effects of inflation. The results of a long period of inaction during the 1980's and early 1990's are dramatic and may have had implications for the entire wage structure of the economy. Between 1978 and 1989, the purchasing power of the minimum wage dropped by more than 30 percent. It can be argued that the failure to increase the minimum wage between 1981 and 1990 contributed to the significant worsening of income inequality during the 1980's.

Even with the 1996 and 1997 increases, the current purchasing power of the minimum wage remains 26 percent below the level of 1968. By 2001 the increase to \$6.15 proposed by Democrats would barely restore the purchasing power after inflation to the level of 1982. The Republican proposal would postpone this until 2002. Why should there be a delay in raising the pay of low-wage workers at a time of unparalleled prosperity, when corporate profits are higher than at any time in the last twenty years as a share of national income and when the compensation of corporate CEO's has reached new

heights compared with the pay of average workers?

Look at the cost of delaying the increase, as proposed by the Republicans. While the difference between phasing-in the \$1.00 per hour over three years versus two years may seem small, the cumulative impact is significant for low-wage workers and their families. **A full-time worker would lose \$1480 over the next three years; that amounts to a loss of 4.2 percent of his or her total earnings over the next three years.**

From another perspective, currently, a single parent family with two children where the parent is a full-time worker working at the minimum wage would have an income of \$10,700; this puts them \$2,600 below the poverty line. After the increase proposed by Democrats, this families would have an annual income of \$12,800, still slightly below the poverty line. Republicans want to make them wait an additional year for even this increase.

The evidence that increasing the minimum wage helps the people who need it most is overwhelming. Research by Jared Bernstein at the Economic Policy Institute¹ found that:

- ! 11.8 million workers would be directly affected by the \$1.00 per hour increase.
- ! That is 10 percent of total employment.
- ! Of those 11.8 million people, 48.2 percent are full-time workers (35 hours per week or more).
- ! 72 percent of these people are adults and only 28 percent are teenagers.
- ! Three million workers affected by the increase help support children, including one million single mothers.
- ! Households with incomes under \$25,000 will receive half of the increased wages, and the 60 percent of households with incomes under \$38,200 will get 73 percent of the increase.

Finally, opponents of the minimum wage have long argued that increasing the minimum wage would harm the very low-wage workers it is designed to help because employers would either cut back on jobs or reduce hours of work. The experience of the 1990's has shown this to be unfounded. Among the groups most likely to be affected by the minimum wage, employment has increased and unemployment rates have declined since the first step of the last minimum wage increase took effect in October 1996.

¹ Jared Bernstein, AThe Next Step: The New Minimum Wage Proposal and the Old Opposition@ Economic Policy Institute, April 27, 1999 and Bernstein, Heidi Hartmann and John Schmitt, AThe Minimum Wage Increase: A Working Woman=s Issue@ Economic Policy Institute and Institute for Women=s Policy Research, September 16, 1999.
U.S. House Democratic Policy Committee, March 2, 2000

Table 1
Employment Indicators for Demographic Groups
Most Affected by an Increase in the Minimum Wage

	<u>Employment (000s)</u>		<u>Unemployment Rate(%)</u>	
	<u>Sept. 1996</u>	<u>Jan. 2000</u>	<u>Sept. 1996</u>	<u>Sept. 1999</u>
Total	127,513	135,221	5.2	4.0
Teenagers	6,697	7,365	15.7	12.6
African-Americans	13,537	15,254	10.6	8.2
Hispanics	11,853	14,395	8.3	5.6
High-School Dropouts*	11,358	11,106	8.2	6.6

* Although the number of people with less than a high school diploma who are employed has declined in the last three years, it is entirely due to the fact that there are fewer people in that group now. The ratio of employment to population for this group increased from 38.0 percent in September 1996 to 39.7 percent in January 2000. In other words, a larger share of this group of people found jobs after the increase in the minimum wage.

Source: Bureau of Labor Statistics

Republican Tax Breaks Do Not Help Workers

The minimum wage increase bill appears to be merely the vehicle that Republicans are using to bring up a bloated package of tax breaks that are mainly beneficial to wealthy individuals and special interests, not small businesses and their workers. The Republican plan as reported by the Ways and Means Committee contains tax breaks totaling \$44 billion over five years that balloon to \$120 billion over ten years. None of the revenue lost is offset by closing corporate tax loopholes, so that the entire cost comes out of whatever on-budget surplus there may be.

Democrats, on the other hand, are proposing a package of tax relief for small businesses that is entirely offset by closing a number of corporate loopholes, most of which were approved by Republicans in the tax bill that was vetoed by President Clinton.

The bias in the Republican tax package is immediately obvious; more than half of the total revenue cost is accounted for by an estate tax break that will benefit only the richest families in the country. This one provision accounts for \$27 billion over five years and \$78 billion over ten years. The provision cuts the top rate on the largest estates, those valued at more than \$10,000,000 (in 1997 there were only 921 estates this large out of 42,907 taxable estates, less than 0.2 percent of all deaths that year). The bill also cuts the rate on other large estates from 55% to 48%, those valued at over \$1,500,000. Both changes have nothing to do with small businesses, which are already entitled to a \$1.3 million exemption from the estate tax.

According to analysis of the tax cuts by Citizens for Tax Justice, more than 73 percent of the total tax cuts would benefit the top 1 percent of families, those with incomes over \$301,000, while only 2.7 percent would benefit the bottom 60 percent of families. The

pension provisions of the bill are nearly as biased to the wealthy as the estate tax according to the CTJ analysis. 91.6 percent of the pension tax cuts would benefit the top 5 percent of Americans with incomes over \$124,000.

Table 2
Distribution of Minimum Wage Increase and Tax Cuts

	Share of Minimum Wage Increase	Share of Republican Tax Breaks
Lowest 60%	73.3%	2.7%
Next 20 %	14.5%	3.0%
Top 20%	12.2%	94.2%

Source:

Share of Minimum Wage Increase: Economic Policy Institute analysis of 1996 and 1997 increases.

Share of Republican Tax Breaks: Citizens for Tax Justice, October 18, 1999

Lowest 60% of families have incomes less than \$38,200

Next 20% of families have income between \$38,200 and \$62,800

Top 20% of families have incomes over \$62,800

An analysis of the pension tax breaks by the Center for Budget and Policy Priorities found that they, too, are designed to benefit high-income people and are not targeted to workers at small businesses. This study concluded that some of the provisions could actually lead to reduced pension coverage for low-income workers by removing penalties for excessive pension benefits to highly-compensated managers and owners and instead providing incentives for reducing employer contributions to lower-paid workers.²

² Iris Lav, ATax Cuts in Lazio Minimum Wage Bill Overwhelmingly Benefit High-Income Taxpayers@ Center on Budget and Policy Priorities, October 19, 1999.